

## ASX RELEASE

7 October 2020

ASX: BFC

### OPERATIONAL AND CORPORATE UPDATE

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- **Lactoferrin plant expansion on schedule for Q3 FY21 completion**
  - **Global studies confirm immune boosting properties of Lactoferrin**
  - **New dairy and nutraceutical products launched**
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#### **Lactoferrin Plant Expansion**

Beston Global Food Company Limited (“Beston”, ASX: BFC) is pleased to report that the Phase 1 expansion of the Company’s Lactoferrin plant at Jervois, South Australia is currently running on schedule for completion in February 2021. The project is being funded by the equity raising completed in July 2020. The new state-of-the-art facility is estimated to cost \$13 million and will increase Lactoferrin production capacity from 3 tonnes per annum to 12 tonnes per annum.

Equipment for the project has been sourced from the USA, New Zealand, Germany, Poland, China and Australia and has been sized and scoped to facilitate a further Phase 2 expansion at an appropriate time (which would increase production further to around 25 tonnes per annum). Some of this overseas sourced equipment has been airfreighted to Australia due to shipping delays induced by COVID-19 restrictions and to ensure that the build-out of the plant remains on schedule.

The new Lactoferrin facility will extract Lactoferrin from skim milk instead of from whey liquid as under the current process.

#### **Global Lactoferrin Trials**

The expansion of our Lactoferrin production capacity comes at a time when global interest in the immune boosting properties of Lactoferrin is on the rise and demand is increasing. Beston recently commissioned an extensive review, by the University of South Australia, into recent global medical and scientific studies on the health uses and benefits of Lactoferrin. The review confirmed that Lactoferrin performs biological functions that impart a protective effect on humans, by supporting the immune system, defending the host from a plethora of pathogens and maintaining homeostatic health conditions.

Lactoferrin is known, through clinical studies conducted over a period of more than 40 years, to have anti-bacterial, anti-viral, anti-parasitic, anti-inflammatory and anti-allergic functions and properties.

The review conducted by UniSA found that all the clinical evidence involving the use of oral Lactoferrin indicate that Lactoferrin is well tolerated in the human body, even at clinical high doses, and displayed no adverse effects to health.

Because of its effectiveness in treating the SARS coronavirus some ten years ago, the attention of medical researchers has turned in recent months to undertaking clinical trials on its use in treating COVID-19 (also known as SARS-CoV-2). The early results from these trials are extremely promising and suggest that Lactoferrin may possibly be used as a safe and effective natural agent to prevent and treat COVID-19 infection.

While more expansive clinical trials will obviously be required for the medical profession to reach definitive conclusions, the body of evidence emerging suggests that Lactoferrin possesses an anti-viral activity which is extendable to COVID-19.

### **COVID-19 Impact Update**

As previously advised, while total cheese production in FY20 was well up (by around 72%) on the previous financial year, the impact of COVID-19 has been to significantly reduce our sales of Mozzarella to the food service sector (by around 70%) as restaurants and other food service outlets closed in response to government-imposed lockdown measures.

The production and sale of other high margin flow-on products (i.e. whey powder and Lactoferrin which is currently produced from the whey liquid by-product of cheese making) was also thereby impacted.

Market conditions in the first quarter of the current financial year have been slowly improving, although held back by the Victorian lock-down situation. Milk supply in the quarter was approximately 10% (3 million litres) above our expectations, partly due to the earlier transition of new suppliers into our system and partly due to an earlier lift in spring supply. Higher milk supply has resulted in higher cheese production during the quarter.

A more comprehensive update on first quarter activities will be provided in the next CEO Letter to Shareholders.

### **National Manufacturing Priorities**

It is pleasing to note that the work which Beston is undertaking at Jervois, to expand its dairy nutraceutical production capacity, fits extremely well within the national priorities for the Australian manufacture of medicines and food and beverage products announced by the Prime Minister on 1 October 2020. These priorities detailed the need to guard against supply chain vulnerability for critical necessities and protect Australia in the future from extraneous shocks such as those experienced from the COVID-19 pandemic.

The work which Beston has undertaken over the past twelve months in further developing its technology eco-system (Beston Technologies) also fits well with the recycling and waste management initiatives announced on 1 October 2020 as part of the Federal Government's six priority areas for transforming the Australian manufacturing sector in the wake of COVID-19.

### **New Products**

Our dairy business at Beston continues to look for opportunities to add value through new product development. In recent months we launched a new mozzarella retail twin pack, with distinct Italian and Mexican twists, that has been very well received in the marketplace.

A key focus continues to be adding value to our milk receivables. Through the expansion of our health and nutrition products and using the capabilities and capacities of our dairy nutraceutical plant, we recently launched "LifeX10" ("Life Extend") a single shot immune boosting drink using Lactoferrin. To complement LifeX10, we will soon be releasing a new anti-viral retail drink containing Lactoferrin under the "Immune+" brand, with further products to be developed under this brand with Lactoferrin as a core ingredient.

### **Investment Management Agreement**

Beston's Assets and Investments are currently managed through an Investment Management Agreement (IMA) put in place with the Investment Manager, Beston Pacific Asset Management Pty Ltd (BPAM).

Beston formally appointed BPAM as its Investment Manager at the time of the IPO to make recommendations and advise on investments and to manage Beston's investment portfolio. BPAM is an Australian company and holds an Australian Financial Services Licence (AFSL No. 246727).

The IMA was originally put in place when Beston was predominantly made up of a portfolio of investments in unlisted entities. The reasons for the IMA were founded primarily around protecting and enhancing the interests of shareholders as summarised in the 2019 Annual Report. BPAM's extensive experience in funds management and securitising assets lent itself to assisting Beston to navigate the early years as a start-up company.

The IMA was for an initial term of five years from 28 August 2015. Consistent with the terms of the Agreement, after this initial term, the IMA is automatically renewed for further terms of five years (as occurred on 28 August 2020). The IMA continues to renew for subsequent terms unless terminated by Beston or BPAM. The current term of the IMA expires on 28 August 2025.

Under the IMA, BPAM is responsible for the overall day-to-day management of Beston and for overseeing the management of Beston's assets. Services provided by BPAM include providing advice to the Board of Beston on strategy, capital raisings, asset development, asset acquisitions and disposals, and undertaking various administrative functions on behalf of Beston.

Under the IMA, BPAM receives a Management Fee which is based on a fixed fee (1.2% pa) of the Portfolio Value of Beston (exclusive of GST). The Portfolio Value is calculated half yearly using respected independent professional valuers. The Management Fee carries an entitlement to an annual bonus payment (performance fee) for outperformance (measured in terms of total returns to shareholders). The IMA includes a mechanism whereby Beston may offset the amount of any performance fee payable against historic negative performance.

The Management Fee paid to BPAM, as determined by the formula contained in the IMA, was intended to cover the cost of the remuneration and associated costs of the senior management team at Beston.

The amount of the fee is determined by the Portfolio Value of Beston and cannot be increased until the Portfolio Value increases. As a result, BPAM has reported publicly that it has absorbed various increases in employee remuneration costs, bonuses, CPI increases and other related costs without any compensating adjustment for these increases in the management fee paid to BPAM. BPAM has made it known to shareholders since the listing of Beston that it has met the shortfalls on the management fees paid to BPAM in the interest of building the business of Beston for the benefit of shareholders.

The management fee paid or payable to the Investment Manager for the year ended 30 June 2020 amounted to \$2.130 million (year ended 30 June 2019: \$2.380 million).

After five years of development, from start up in 2015, Beston has a clear strategy to build on the foundations which have been put in place and drive earnings growth over the next five years and beyond.

Accordingly, the Independent Directors of Beston and BPAM recently entered into discussions to consider the possible termination of the IMA following expiry of the initial five-year term. Consistent with the advice given to shareholders at the 2019 AGM, BPAM made it known to the Independent Directors that it would agree to terminate the IMA within the arrangements set out in the IMA.

Beston advised the market on 22 June 2020 that the Independent Non-Executive Directors of the Company were conducting an evaluation of the IMA in place with BPAM with a view to the possible termination of the Agreement.

Termination of the IMA requires that a notice of termination be put to a resolution of shareholders at an Ordinary Meeting of the Company and if approved triggers a termination payment under the terms of the IMA.

After extensive review, the Independent Directors have resolved that it is not in the best commercial interests of the Company at this time to move forward with the termination of the IMA. Accordingly, the IMA will continue to remain in operation and the issue of termination will be kept under review by the Independent Directors.

As a result of the sale of the dairy farms, and the cessation of business activities around the farm operations, the management fee payable to BPAM under the IMA will reduce to \$1.62 million per annum for the FY21 period to 31 December 2020 (at which point it will be subject to further review in accordance with the IMA). The amended fee represents approximately 1.3% of forecast sales revenue for FY21 compared to 2.4% and 3.2% for the FY20 and FY19 years respectively.

**FOR FURTHER INFORMATION PLEASE CONTACT:**

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Beston Global Food Company is a proud SA multi award-winning company taking the best of Australian produce to the world with fresh milk supplied by valued Farmers. The company provides direct and indirect employment for nearly 300 people. For more information please visit: [www.bestonglobalfoods.com.au](http://www.bestonglobalfoods.com.au)